

Saudi Electricity Company ('SEC')
Financial results for the nine months ended 30 September 2017

Flat revenues growth driven by change in sales mix, however net income significantly grows due to municipalities fees cancellation

Riyadh, 6 November 2017 – Saudi Electricity Company ("SEC"), the largest utility company in the Middle East and North Africa region, announces its interim financial results for nine-month period ended 30 September 2017.

Figures in SAR million	Quarterly Periods			Nine Months Periods		
	Q3 2017	Q3 2016	% change	9M 2017	9M 2016	% change
Description						
Revenues	16,917	17,133	(1.3)%	39,139	39,222	(0.2)%
Gross Profit	5,548	5,587	(0.7)%	7,585	8,036	(5.6)%
<i>Gross Profit Margin %</i>	32.8%	32.6%	<i>0.2pp</i>	19.4%	20.5%	<i>(1.1)pp</i>
Operating Profit	5,604	5,606	0.0%	13,850	8,015	72.8%
<i>Operating Profit Margin %</i>	33.1%	32.7%	<i>0.4pp</i>	35.4%	20.4%	<i>15.0pp</i>
Net profit/losses	5,262	4,928	6.8%	12,429	6,372	95.1%
Reported Earnings/losses per share (SAR)	1.26	1.18	6.8%	2.98	1.53	95.1%
EBITDA ⁽¹⁾	9,670	8,910	8.5%	25,462	17,865	42.5%
<i>EBITDA Margin %</i>	57.2%	<i>52.0%</i>	<i>5.2pp</i>	65.1%	<i>45.5%</i>	<i>19.6pp</i>
One-off items	n/a	(110)	n/a	5,888	(110)	n/a
Excluding one-off items						
Underlying EBITDA ⁽²⁾	9,670	9,020	7.2%	19,574	17,975	8.9%
<i>Underlying EBITDA Margin%</i>	57.2%	52.6%	<i>4.6pp</i>	50.0%	45.8%	<i>4.2pp</i>
Underlying Net profit/losses ⁽³⁾	5,262	5,038	4.4%	6,541	6,482	0.9%

(1) EBITDA = Net profit/losses + depreciation + net interest expense + Zakat expense

(2) Underlying EBITDA = EBITDA excluding one-off items

(3) Underlying Net profit/losses = Net profit/losses excluding one-off items

HIGHLIGHTS

- Shift in sales mix drives a slight decline of 1% and flat growth year on year in total operating revenues during Q3 2017 and 9M 2017 respectively.
- Continued optimization of operations and maintenance costs, improvement in thermal efficiency and optimization of fuel mix largely offset higher operating costs arise from higher depreciation and purchased power costs, signifying SEC's rigorous efforts to control costs.
- EBITDA and net profit are significantly positively impacted by one-off items including:
 - 1) a substantial reversal of accrued historical municipalities fees of SAR 6.1 billion post issuance of a royal decree to cancel municipalities fees in Feb 2017; and
 - 2) this was partially offset by a charged one-off expense of SAR 232 million relating to employees' early retirement plans under the company's human resources productivity improvement program.
 - 3) 9M 2016 period also was impacted by a charged one-off expense of SAR 110 million relating to employees' early retirement plans under the company's human resources productivity improvement program.
- Major capital expenditure program continues. SAR 32.1 billion invested in capital projects and fixed assets during the first nine months of 2017.
- SEC continues to be one of the highest rated corporate in Saudi Arabia with A2/A/A- ratings by Moody's, Fitch and S&P respectively.

PERFORMANCE REVIEW

Revenues

Item (SAR million)	9M 2017	% of total	9M 2016	% of Total	Change
Electricity Sales	35,450	90.6%	35,786	91.2%	(0.9)%
Meter reading, maintenance and bill preparation income	932	2.4%	886	2.3%	5.2%
Electricity Connection Tariff	1,915	4.9%	1,666	4.2%	15.0%
Transmission System Revenues	691	1.8%	513	1.3%	34.7%
Other Operating Revenues	151	0.4%	371	0.9%	(59.4)%
Total Operating Revenues	39,139	100%	39,222	1.00	(0.2)%

- 9M 2017 total operating revenues slightly decline by 0.2% to SAR 39.1 billion, primarily driven by a lower electricity sales and other operating revenues.
- Despite a 2.8% growth year on year in consumption volumes, a shift in the sales mix toward lower consumption slabs is underlying a 0.9% decline year on year in electricity sales. In 9M 2017, SEC sold 231.4 TWh (9M 2016: 225.1 TWh) of electricity.
- Higher revenues of transmission system due to increased backup service/wheeling charges on major industrial facilities who have their own onsite captive generation and use SEC's transmission national grid to transmit power.

- Operating revenues from the tariffs charged for meter reading, maintenance and bills preparation and one-off tariffs charged for making initial electricity connections were higher, in line with the continuing increase in the customer base and higher revenues realized from connection tariff services projects.
- As end of 9M 2017 SEC's customer base grew 5.5% year on year from 8.45 million to 8.92 million.

Cost of Sales

Item (SAR million)	9M 2017	% of total	9M 2016	% of total	Change
Fuel	(7,331)	23.2%	(7,840)	25.1%	(6.5)%
Purchased energy	(5,436)	17.2%	(5,130)	16.5%	6.0%
Operation and maintenance	(7,433)	23.6%	(8,558)	27.4%	(13.1)%
Depreciation ⁽¹⁾	(11,353)	36.0%	(9,657)	31.0%	17.6%
Cost of Sales	(31,554)	100.0%	(31,186)	100.0%	1.2%

⁽¹⁾ Depreciation relating to operating assets

- 6.5% year on year decrease in fuel costs reflecting saving from improved thermal efficiency in SEC generation fleet to 36.6% in 9M 2017 (9M 2016: 35.6%) and continued shift in the fuel mix to lower consumption of the diesel and light crude oil fuel types as a feedstock. The thermal efficiency of the overall generation fleet in Saudi improved to 38.3% in 9M 2017 (9M 2016: 37.6%).
- 6% year on year increase in purchased power cost mainly driven by higher output from IPPs generation. This as opposed to temporary outage incidents for some of the IPPs during 9M 2016.
- 13.1 year on year decrease in operations and maintenance costs mainly arose from optimized material and contracts costs and municipalities fees cancellation.
- 17.6% increase in depreciation reflecting the growth in the operating asset base: projects amounting to SAR 51 billion were completed and became operational over the course of the last 12 months.

EBITDA, Margins, and Net Profit/ Losses

- EBITDA up 42.5% to SAR 25.5 billion (9M 2016: SAR 17.9 billion) and significantly positively impacted by one-off items including:
 - 1) a substantial reversal of accrued historical municipalities fees of SAR 6.1 billion post issuance of a royal decree to cancel municipalities fees in Feb 2017;
 - 2) this was partially offset by a charged one-off expense of SAR 232 million relating to employees early retirement plans under the company's human resources productivity improvement program. The program is intended to improve and align human resources with business requirements; and
 - 3) also was opposed by a charged one-off expense of SAR 110 million in 9M 2016, relating to employees' early retirement plans under the same company's human resources productivity improvement program.
- Excluding the impact of the aforementioned one-off items in 9M 2017, the growth in EBITDA would be 8.9%.
- Reported net profit up 95.1% to SAR 12.4 billion (9M 2016: SAR 6.4 billion); implying a significant net positive impact from the aforementioned on-off items in 9M 2017. Excluding these on-off items, 9M 2017 would reported net profit on an underlying basis of SAR 6.5 billion, implying 0.9% increase compared to corresponding previous year period.

- Improved efficiency and effectiveness in operations are demonstrated by continued growth in net income after excluding the one-off items and despite the increase in uncontrollable costs.

Cash flow and Capital Expenditure

- Cash flow from operations for 9M 2017 is SAR 26.8 billion (9M 2016: SAR 20.6 billion), an increase of 30.1%. The increase is principally due to improved working capital management driven by lower inventory, accounts payable and prepaid expenses.
- Overall SAR 34.2 billion in 9M 2017 (9M 2016: SAR 39.7 billion) net outflow of cash due to investing activities, in line with SEC's commitment to meet the needs of Saudi Arabia's growing economy through increasing generating capacity and improving and extending transmission and distribution networks.
- The net cash inflow from financing activities in 9M 2017 of SAR 8.7 billion (9M 2016: SAR 18.1 billion) is primarily from proceeds from borrowings (totaling SAR 15.7 billion) that is partially offset by repayments of loans and Sukuks of SAR 6.5 billion and dividend payment of SAR 533 million relating to 2015.
- SEC closed 9M 2017 with a gross cash position of SAR 2.8 billion (9M 2016: SAR 1.2 billion).

Asset and Equity Base

- The growth in the asset base reflects SEC's continuing major investments into its generation, transmission and distribution capabilities. During the nine month period ended on 30 September 2017 SEC's asset base had grown 5.8% to SAR 446.1 billion (2016 end: SAR 421.6 billion), with shareholders' equity growing 18.1% to SAR 77.5 billion during the same period (2016 end : SAR 65.6 billion).

IFRS Conversion.

- SEC has adopted the International Financial Reporting Standards (IFRS) effective 1 January 2017. Accordingly, some changes have been made to SEC's financial statements on a number of items in the measurement, presentation and disclosure method for the current and comparative periods in accordance with the accounting policies applied in accordance with International Standards For the financial reporting approved in Saudi Arabia and other publications and standards approved by the Saudi Organization for Certified Public Accountants. For further details, note 5 (Application of IFRS for the first time) can be read in the notes of the interim consolidated financial statements for the period ended 30 September 2017.

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Overview of Saudi Electricity Company (“SEC”)

SEC is the largest utility in the MENA region with a market capitalization of SAR 99.5 bn (US\$ 26.5 bn) as at 30 September 2017, and is one of the largest companies listed on the Saudi Tadawul by market size. It is a vertically integrated company involved in the generation, transmission and distribution of electricity to over 8.9 million customers in Saudi Arabia. Saudi Arabia is one of the Top 20 economies globally whose demand for electricity is growing driven by a growing population, rising per capita consumption and an increasingly diversified and growing economy.

For further information on SEC and the full financial statements for the nine months period ended 30 September 2017, please refer to the corporate website: www.se.com.sa

End of Release